

The Effect of Capital Structure on Profitability in Retail Trading Sub Sector Companies Listed on Idx In 2017-2021

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Abstract

Capital structure and profitability is an important part for the company. Analysis of capital structure and profitability is needed for companies to find out how big the company's profit level is in a certain period. The purpose of this study was to determine how much influence capital structure has on the profitability of retail companies in Indonesia. This researcher uses a quantitative descriptive method. A sample of 32 companies with complete financial statements was taken by purposive sampling. The results show that the capital structure as measured by Debt-to-Equity Ratio (DER) and Debt to Total Assets (DAR) to profitability as measured by Return on Equity (ROE) has different results. The Debt-to-Equity Ratio (DER) shows a significant negative effect on Return on Equity (ROE). Meanwhile, Debt to Total Assets (DER) has no significant effect on Return on Equity (ROE).

Keywords:

Capital Structure, Profitability, Retail Company

1. Introduction

The emergence of the Corona Virus or Covid-19 at the end of 2019 which first spread in Wuhan, China. Corona Virus infection is a disease caused by the Corona Virus, the main symptoms of which are respiratory problems. The government with all its efforts and policies to stop the spread of the Corona Virus, starting from implementing social distancing which means limiting certain activities of residents in an area, routinely washing hands with running water or hand sanitizer whenever holding any object, and wearing masks.

The Covid-19 pandemic and the implementation of PSBB (Large-Scale Social Restrictions) many sectors were affected, including the tourism sector, manufacturing sector, economic sector, transportation sector, food sector, and social sector.

The sector that experienced a very significant decline was the economic sector, due to the weakening of people's purchasing power and the PSBB policies and regulations had an important influence on the ups and downs of the economic sector. Based on research conducted by researchers in the economic sector of the retail trade subsector, most of which run their business in Shopping Centers or Malls. Quoted from artical.katadata.co.id, according to Agatha, the BI Survey said that for indications of a decline in retail sales performance as seen from the March Real Sales Index of 219.9 contracted -4.5%, the decline in sales is expected to continue until April 2020 with the Real Sales Index only by 202.2 contracted -11.8%. With this decline in sales performance, the resulting profit also decreases.

Capital structure and profitability are important ratios in the development of a company's performance to find out how big the company's profit level is in a certain period. In order to find out how much influence the allocation of debt and equity in the sub-sector of retail companies that are used to fund the company's operational activities on the ability to generate net income. So, researchers are interested in researching: "The Effect of Capital Structure on Profitability in Retail Trading Sub-Sector Companies Listed on the IDX in 2017-2021".

1.1. Conceptual Framework and Hypothesis Building

According to Septiana, (2019) financial ratio is a financial analysis tool of a company to assess the company's performance based on the financial data contained in the financial statements. Financial ratios describe a relationship or balance between certain amounts and other amounts. In this study, researchers used financial ratios Debt to Equity Ratio (DER) and Debt to Total Assets (DAR) which were used to measure capital structure and financial ratios of Return on Equity (ROE) were used to measure company profitability.

1.2. Definition Operational

1. Return on Equity

The ratio used to assess the ability of a company to generate a profit from shareholder investment expressed as a percentage, which is calculated from the company's income to the invested capital. So that it shows how much the company's results in managing its capital are measured by the investment of the capital owners or company shareholders.

2. Debt to Equity Ratio

This solvency ratio describes the relative portion of equity and debt used to finance a company's assets. Debt to equity ratio compares total liabilities with equity. Where if it shows a low level of ratio, then the condition of the company is getting better because the portion of debt to the company's capital is getting smaller.

3. Debt to Total Asset Ratio

This ratio is a measure used to measure the size of a company's assets financed by debt. The higher the DTA result, the greater the amount of debt capital used by the company to finance assets.

2. Design, Methods, and Approach

This research method uses quantitative research. According to Djaali, (2021) Quantitative research is research that is inferential in the sense of drawing conclusions based on statistical test results, using empirical data from data collection through measurements. The method used in this research is purposive sampling.

Criteria:

1. Retail companies listed on the IDX.
2. Retail companies that have complete financial reports for the period 2017-2021.

The research model used to ensure the influence between the independent variable and the dependent variable is multiple linear regression analysis.

Multiple linear regression model is described by the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Information:

Y = dependent variable

α = Constant

β_1, β_2 = The coefficient of each independent variable, which each has an interpretation as the average expected to respond to Y (positive/negative) per unit change in each X variable, called the slope.

X = Independent variable

e = Standard error

3. Analysis Result and Discussion

Table 1 Analysis Result and Discussion

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	6.088	4.488		1.357	.180
DER	-.614	.252	-.299	-2.437	.018
DTA	-.015	.060	-.030	-.242	.809

Based on the above output results, the regression equation can be formulated as follows:

$$ROE = 6,088 - 0,614 DER - 0,015 DTA$$

Based on the regression equation above, it can be explained that:

1. Constant

The constant value is 6.088, meaning that if the independent variable consisting of Debt-to-Equity Ratio (X1) and Debt to Total Assets (X2) the value is 0. Then the value of Return on Equity (Y) is 6.088 units.

2. Debt To Equity Ratio Regression Coefficient

The value of the Debt-to-Equity Ratio is -0.614, indicating the direction of the negative (opposite) relationship between the Debt-to-equity ratio and Return on Equity. This can be interpreted if the Debt-to-Equity Ratio variable increases by 1%, then Return on Equity decreases by 0.614 units.

3. Debt to Total Assets Regression Coefficient

The value of Debt to Total Assets is -0.015, indicating that the direction of the relationship is negative (opposite) between Debt to Total Assets and Return on Equity. This can be interpreted if the variable Debt to Total Assets increases by 1%, the Return on Equity decreases by 0.015 units.

Hypothesis testing was carried out after testing the research instrument, testing classical assumptions and multiple regression analysis. then it can be seen the results of the t test and F test as follows.

c. t Test

Based on the results of the SPSS output, it is known that the value of Sig. for the effect of DER on ROE is 0.018 < 0.05 and the t value is -2.437 > t table 1.999, so it can be concluded that DER has a significant negative effect on ROE.

And the output value of Sig. the effect of DTA on ROE is 0.809 > 0.05 and the t value is -0.242 < t table 1.999, because the sign is greater than 0.05 and the t table is larger, so it can be concluded that there is no significant effect of DTA on ROE.

d. F test

Based on the results of the SPSS output, it is known that the significance value for the effect of DER and DTA simultaneously on ROE is 0.047 < 0.05 and the calculated F value is 3.206 > 3.14, so it can be concluded that DER and DTA simultaneously have a positive and significant effect on ROE.

3.1. Analysis and Discussion of Research Results

3.1.1. Debt To Equity Ratio Has a Significant Negative Effect on Return on Equity

The first hypothesis is "Debt to Equity Ratio partially and significantly positive effect on Return on Equity". Based on the results of the data that has been processed using SPSS, it shows that the first hypothesis is rejected with a negative t value of 2.437 with a significance value of 0.018 which is smaller than 0.05. So, it can be concluded that the Debt-to-Equity Ratio partially has a negative and significant effect on Return on Equity.

The negative effect of the Debt-to-Equity Ratio is caused by several ratio values showing a minus value above 1 (one) or above 100%, the company is experiencing a capital deficiency, causing a decrease in equity to be minus and the high DER value in several other companies due to the pandemic in 2020- 2021. The company's liabilities which are much greater than the value of the assets owned make the company have minus equity, so that it can cause these companies to be threatened with bankruptcy.

3.1.2. Debt To Total Asset Ratio Has No Significant Effect on Return on Equity

The second hypothesis is "Debt to Total Assets has a partial and significant positive effect on Return on Equity" based on the results of data that have been processed using SPSS that the second hypothesis is rejected with a t table value of 1.999 and sig 0.809 greater than 0.05. This is due to the lack of data distribution and the very high value of the Debt to Total Assets ratio dominated by one company indicating that the higher the DAR value indicates the higher the risk of the company in paying off its obligations, so that the company's net profit will be used to pay off the company's debts.

3.1.3. Debt to Equity Ratio and Debt to Total Asset Have a Positive and Significant Effect on Return on Equity

The third hypothesis is "Debt to Equity Ratio and Debt to Total Assets simultaneously have a significant positive effect on Return on Equity" the results of the data that have been processed using SPSS indicate the hypothesis is accepted, with the calculated F value obtained at 3.206 and the sig value of 0.047 smaller of 0.05. So, it can be concluded that the Debt-to-Equity Ratio and Debt to Total Assets simultaneously have a positive and significant positive effect on Return on Equity.

4. Limitation, Suggestion, and Recommendation

4.1. Limitation

The limitation of this research is the lack of independent variables as a measurement indicator of a company.

4.2. Suggestion

1. For companies

The company can improve its performance in order to be able to manage the use of capital and debt and be able to maximize in generating high profits so that it can operate the company as it should.

2. For Creditors

Creditors should pay more attention to the variable amount of assets financed by debt, as well as pay attention to other ratios that can affect the company's profitability. Therefore, creditors can find out the fundamental condition of the company.

3. For Next Researchers

For next researchers, it is recommended to add more diverse variables than the ratios not mentioned in this study so that the distribution of data can be processed optimally and accurately.

References

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